

## BOROUGH OF KETTERING

<b>Committee</b>	EXECUTIVE	Item 10	Page 1
<b>Report Originator</b>	Strategic Management Team	Fwd Plan Ref No: A18/033	
<b>Wards Affected</b>	All	17th April 2019	
<b>Title</b>	DURABLE BUDGET REPORT		

**Portfolio Holder: Cllr Lloyd Bunday**

### **1 PURPOSE OF REPORT**

The purpose of the report is to:

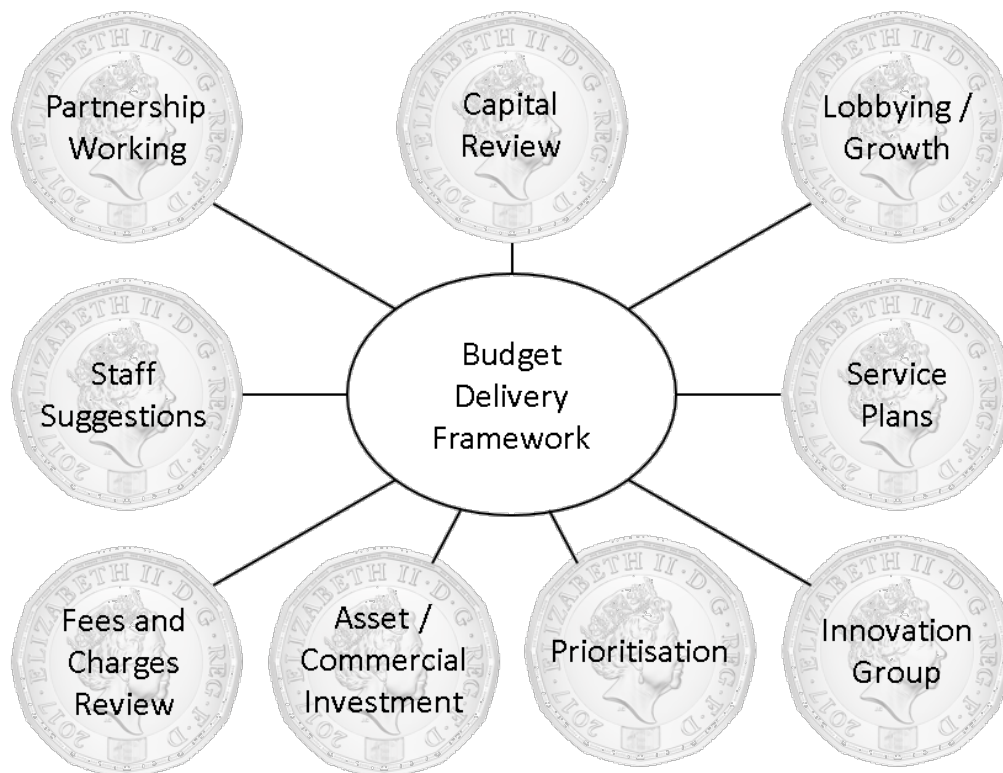
- a) Remind Members of the context / background to the council's budget and medium term financial strategy;
- b) Illustrate the latest budget model, the delivery of efficiencies for 2019/20 and the estimated level of efficiencies that may be required over the next few years;
- c) Agree the high level budget process for 2020/21.

### **2. BACKGROUND**

- 2.1. The Council's 2019/20 budget was approved by Council at its meeting on 27<sup>th</sup> February 2019. In terms of setting a balanced budget, the Council's strategy to date has been successful, although it has to be stressed that the budget setting process is a paper exercise and all the changes being proposed have to be realised and delivered over the next year if we are to avoid additional strain being placed on the following years' budgets. The budgets for 2019/20 will be closely monitored throughout the year and any variances will be reported to the Executive as part of the Durable Budget report.
- 2.2. Members will appreciate that the strategies the Council has adopted over the past few years have generally kept the authority in a good position from which to move forward. In Kettering, our approach ensured that the Council was able to pro-actively deal with the challenges faced through: -
  - ◆ Anticipating and trying to influence major 'Big Ticket' items;
  - ◆ Having a well-motivated and flexible workforce that is pro-active in helping to deliver services.
- 2.3. The Council's success in delivering a balanced budget over the past number of years has come from the Budget Delivery Framework however efficiencies of this magnitude are becoming increasingly difficult to maintain. For the Council to remain in the best possible shape in the medium term it will need to ensure that it 'delivers' on all aspects of its budget framework as outlined below:

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2.4. The Council has already done an impressive job of delivering around £12.8m of 'efficiencies' to date. The Council's financial 'golden rules' and the financial 'guiding principles' provide a strong basis for the Council's medium term financial strategy. Both of these are specifically for the Council's General Fund budgets (revenue and capital) – for ease of reference these are reproduced below:

### **Financial Golden Rules;**

- a. The General Fund Working Balance should not fall below £1m or 10% of net revenue expenditure (whichever is the greater);
- b. When setting the level of council tax, members should always consider the medium term outlook to ensure that a sustainable budget position is maintained;
- c. The Council must always ensure that adequate funding is provided to cover all of its statutory and regulatory responsibilities;
- d. Should the Council decide to allocate significant additional / new funding to a specific service – it should identify where the required funding is coming from (or compensating savings are to be made);

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- e. When setting the Capital Programme, in addition to meeting statutory responsibilities, priority will be given to schemes that are beneficial to the council's overall revenue budget position;
- f. The council must ensure that it has an overall level of revenue reserves that are appropriate for the overall level of risks that the organisation faces – including potential national funding changes;
- g. In line with the council's investment strategy, the council will look to invest in schemes that will have a positive impact over the medium term on its budget position including taking out long-term debt financing (where there is an appropriate business case).

### **Financial Guiding Principles;**

- i. When funding for a specific service is reduced / withdrawn (from national government or another provider) the council should not substitute itself as a provider or funder of the service – unless there are exceptional circumstances;
- ii. When considering the Capital Programme, due regard is given to ensure that existing council assets are properly maintained;
- iii. Where decisions are required about the priority of funding for services, the following is followed;

Priority 1 - Statutory Requirements

Priority 2 – Fit to Council Objectives of;

- ◆ Better Town Centres
- ◆ Better Jobs
- ◆ Better Education Offer

- iv. Continue to seek strategic partnerships with other public sector providers to help protect services for our residents – especially those that help promote economies of 'scope' rather than 'scale';
- v. To maximise the resources that are available to the authority, the council will continue to actively lobby the Government on relevant issues.

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## **Housing Revenue Account Guiding Principles**

2.5. The HRA Golden Rules and Guiding Principles were approved by the Executive at the meeting on 23<sup>rd</sup> May 2018 for ease of reference they are reproduced below:

### ***HRA Financial Golden Rules;***

- a. *The Housing Revenue Account Working Balance should not fall below £300,000;*
- b. *When setting the level of rents, members should always consider the national policy position;*
- c. *The Council must always ensure that adequate funding is provided to cover all of its statutory and regulatory responsibilities;*
- d. *Should the Council decide to allocate significant additional / new funding to a specific service – it should identify where the required funding is coming from (or compensating savings are to be made);*
- e. *The council must ensure that it has an overall level of revenue reserves that are appropriate for the overall level of risks that the HRA faces – including potential national funding and policy changes.*

### ***HRA Financial Guiding Principles;***

- i. *When funding for a specific service is reduced / withdrawn (from national government or another provider) the council should not substitute itself as a provider or funder of the service – unless there are exceptional circumstances.*
- ii. *When setting the HRA budgets and considering the HRA Capital Programme, due regard is given to ensure that expenditure protects the long term viability of the Council's housing stock by making sure the assets are properly maintained and have the ability to meet the Borough's housing needs.*
- iii. *Where decisions are required about the priority of funding for services, the following is followed;*

*Priority 1 - Statutory Requirements*

*Priority 2 – Investment in Existing Housing Stock*

*Priority 3 – Fit to Housing Strategy of;*

- ♦ *Increasing housing supply across all tenures*
- ♦ *Ensuring safe and healthy homes, reducing the opportunity for crime and anti-social behavior*
- ♦ *Helping people to live independently*

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- iv. *Continue to seek strategic partnerships with other public sector providers to help protect services for our residents – especially those that help promote economies of ‘scope’ rather than ‘scale’;*
- v. *To maximise the resources that are available to the authority, the council will continue to actively lobby the Government on relevant issues.*
- 2.6. The Council has successfully set a balanced budget for 2019/20 which has been set within the parameters approved by the Executive. Given the success of the strategy to date, members are recommended to continue using the existing budget delivery framework for the preparation of the 2020/21. Specifically, members are recommended to adopt; *“that the same methodology be applied to the formulation of the 2020/21 budget as it applied to the 2019/20 with particular reliance on:-*
- the financial ‘golden rules’*
  - the financial ‘guiding principles*
  - the existing nine ‘workstreams’*
- 2.7. The Council has in previous years agreed the strategy for setting the budget for the forthcoming year in March or April and whilst at the time of writing the report the Government have not made a decision following the consultation to create two new unitary councils which closed on 25<sup>th</sup> January. It is important the Council makes progress towards setting a balanced budget for 2020/21.
- 2.8. Should the government formally approve the creation of two new unitary councils the setting of the budgets for the Unitary will be a decision for the shadow authority – however any progress that can be made will help towards the financial sustainability of the new authority.

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### 3. UPDATE OF KEY ISSUES AND BUDGET PROJECTIONS

3.1 The Council's Medium Term Financial Strategy is reproduced in Table 1 – notes to the Medium Term Financial Forecast are included at **Appendix A**.

TABLE 1 - MEDIUM TERM FINANCIAL FORECAST							
		Zone of "Predictability"		Zone of "Unpredictability"			
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		£000	£000	£000	£000	£000	£000
<b>1</b>	<b>Net Council Budget</b>	10,893	11,118	10,385	10,107	10,482	10,364
<b>2</b>	<b>Forecast Resources:</b>						
	<b>Government Grant</b>						
<b>2a</b>	Revenue Support Grant	(171)	0	0	0	0	0
<b>2b</b>	Business Rates	(2,428)	(2,484)	(2,000)	(2,000)	(2,000)	(2,000)
	<b>Total Government Grant</b>	<b>(2,599)</b>	<b>(2,484)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>
	Council Tax / Coll'n Fund	(300)	(350)	(100)	(100)	(100)	(100)
	Income From Council Tax	(6,521)	(6,722)	(6,823)	(6,926)	(7,030)	(7,135)
	<b>Total Resources</b>	<b>(9,420)</b>	<b>(9,556)</b>	<b>(8,923)</b>	<b>(9,026)</b>	<b>(9,130)</b>	<b>(9,235)</b>
<b>3</b>	<b>Budget (Surplus) / Deficit</b>	<b>1,473</b>	<b>1,562</b>	<b>1,462</b>	<b>1,081</b>	<b>1,352</b>	<b>1,129</b>
<b>4</b>	'efficiencies' Identified	<b>(1,473)</b>	<b>(1,562)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>5</b>	'efficiencies' - To be Identified	<b>0</b>	<b>0</b>	<b>(1,462)</b>	<b>(1,081)</b>	<b>(1,352)</b>	<b>(1,129)</b>
<b>6</b>	<b>Budget (Surplus) / Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
GENERAL FUND WORKING BALANCE							
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		£000	£000	£000	£000	£000	£000
<b>7</b>	<b>Estimated Opening Balance</b>	1,415	1,375	1,335	1,295	1,295	1,295
<b>8</b>	Town Centre Initiatives	40	40	40	0	0	0
<b>9</b>	<b>Estimated Closing Balance</b>	<b>1,375</b>	<b>1,335</b>	<b>1,295</b>	<b>1,295</b>	<b>1,295</b>	<b>1,295</b>

The Medium Term Financial Strategy comprises the following 'Zones':

- **Zone of Predictability** – covers the 2018/19 and 2019/20 financial years - for which the level of government funding is known.
- **Zone of Unpredictability** – This covers the period from 2020/21, which is when it is anticipated that the fairer funding formula review and Business Rates will be reset.

Based upon the figures in the MTFs, the Council would need to identify and deliver further efficiencies of around;

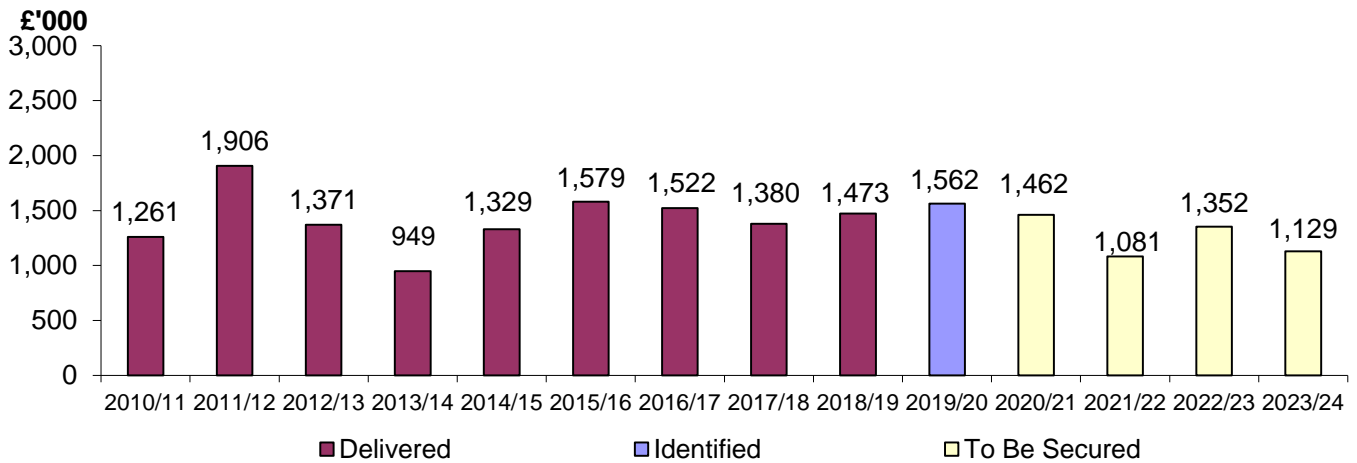
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- ◆ £1,462,000 in 2020/21,
- ◆ £1,081,000 in 2021/22
- ◆ £1,352,000 in 2022/23 and
- ◆ £1,129,000 in 2023/24

3.2 As clearly outlined in previous durable budget reports, the best estimates of the ongoing efficiency targets going forward are at least of a similar scale to those already met, this is summarised in Chart 1:

**Chart 1  
Efficiencies / Savings / Income Generation**



## 2018/19 Update (General Fund)

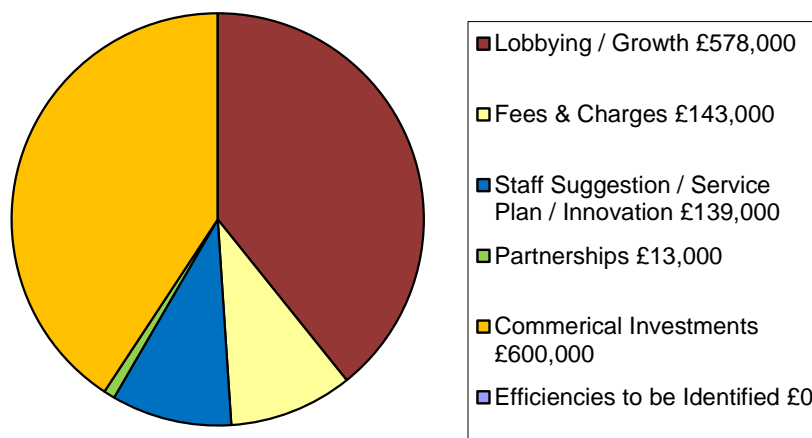
3.3 From when the 2018/19 budget was set, Members will recall that additional ongoing 'efficiencies' of £1,473,000 were required to set a balanced budget.

3.4 Those 'efficiencies' were identified before the budget was formally set and are summarised in Chart 2:

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**Chart 2  
Framework Efficiencies for the next Year (2018/19)**



3.5 As explained in previous budget reports although we have traditionally referred to the term 'savings', in reality these are a combination of efficiencies, savings and income generation. Table 2 illustrates how the efficiencies in 2018/19 are being delivered:

<b>Table 2 – 2018/19 Budget Changes</b>			
<b>Framework</b>	<b>Additional Income £'000</b>	<b>Reduced Expenditure £'000</b>	<b>Total £'000</b>
Lobbying / Growth	578	0	578
Fees & Charges	143	0	143
Staff Suggestion / Service Plan / Innovation	107	32	139
Partnerships	13	0	13
Commercial Investments	600	0	600
<b>Total</b>	<b>1,441</b>	<b>32</b>	<b>1,473</b>



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- 3.6 Table 3 provides further information – relating to the composition of the 2018/19 efficiencies. The Council remains on target to deliver the majority of the 2018/19 framework efficiencies shown in Table 3.

<b>Table 3 – Composition of 2018/19 Budget Changes</b>		
<b>Framework</b>	<b>Efficiency</b>	<b>£'000</b>
Commercial Investments	Income from Commercial Investments	600
Lobbying / Growth	New Homes Bonus Income	343
Lobbying / Growth	Increase in Planning Fees	135
Lobbying / Growth	Homelessness Grant	100
Staff / Innovation	Treasury Management Income	100
Staff / Innovation	Other schemes	39
Fees & Charges	Additional Income	77
Fees & Charges	Crematorium Income	66
Partnerships	Joint Working	13
<b>Total</b>		<b>1,473</b>

- 3.7 Members will recall that £600,000 of the identified framework efficiencies for 2018/19 came from additional income through commercial investments. The Executive at the April 2017 meeting approved a Commercial Property Investment Strategy providing a framework for Kettering Borough Council to compete in the property market on an equal footing enabling the acquisition of properties for investment income. This provided a framework against which individual property investment opportunities would be assessed and is an integral part of the Council's 2019/20 Capital Strategy which was approved at the February Council meeting.
- 3.8 The Council continues to make progress with its Commercial Investments programme and has recently acquired a 32,900 sq. ft. office unit in Wakefield (Kingfisher House, Cedar Park) for £5.2m the estimated gross return is around 8.5%.
- 3.9 All the commercial investments that have been done to date have been done in accordance with the requirements of (1) the Council Constitution and (2) the Council's Investment Strategy. Work is ongoing on further commercial investments to ensure that the Council remains ahead of the curve in this regard.
- 3.10 The Council remains on target to deliver the majority of the 2018/19 framework efficiencies shown in Table 3.
- 3.11 At the end of February 2019 the General Fund is estimated to come in under budget. The main variances are detailed in Table 4. A final outturn report will be brought to the Executive following the completion of the Statement of Accounts which will provide the final outturn position.

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**Table 4 – General Fund Projected Variances (2018/19)**

	<b>Projected Variances November</b>	<b>Reason</b>
Business Rates	£90,000 (favourable)	This reflects the estimated retained growth from the Business Rates Retention Scheme.
Planning Fees	£90,000 (favourable)	This variance reflects a low number of large value planning applications received towards the end of the financial year.
Homelessness	£70,000 (adverse)	There has been a significant increase in the number of homeless applications, which is reflective of the picture across the country. Locally, the Council's response has been to ensure we are best placed to take action to prevent homelessness and, secondly, to minimise expenditure on expensive nightly paid accommodation and bed & breakfast hotels. This has involved utilising HRA properties for temporary accommodation and acquiring a number of properties on the open market to use as temporary housing for homeless households.
Other Items	£90,000 (favourable)	The General Fund budget consists of many budgets to which there is some degree of variation – overall current projections show this as a favourable variance.

3.12 During each budget process, members are informed of a number of 'big ticket' items. These are typically items of large value that could have a disproportionate impact on the Council's budget if they moved in an adverse fashion. Consequently these are monitored very closely and members and officers may occasionally try to influence (through lobbying) any changes that may take place especially when such changes are triggered through changes in national policy. These items are included in the Council's Swing – o – meter as detailed at **Appendix B**.

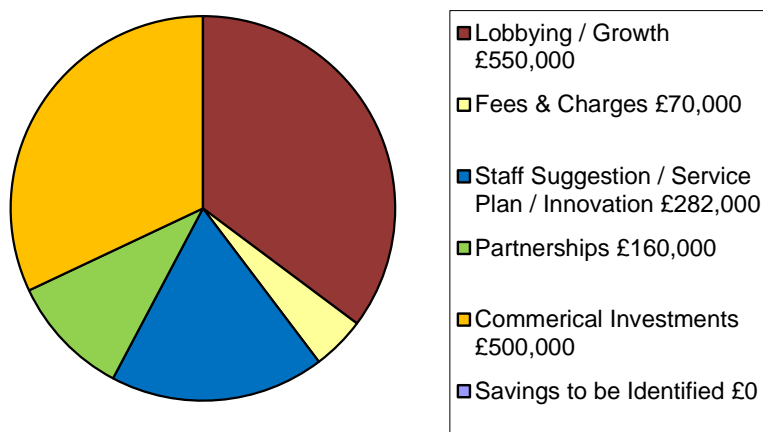
### **2019/20 Budget (General Fund)**

3.13 Members will recall that additional ongoing 'efficiencies' of £1,562,000 were required to set a balanced budget for 2019/20. Those 'efficiencies' were identified before the budget was formally set and are summarised in Chart 3:

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**Chart 3  
Framework Efficiencies for the next Year  
(2019/20)**



3.14 Table 5 provides further information – relating to the composition of the 2019/20 Framework efficiencies:

<b>Table 5 – Composition of 2019/20 Efficiencies</b>		
<b>Framework</b>		<b>£'000</b>
Commercial Investments	Income from Commercial Investments	500
Lobbying / Growth	Business Rates Income	400
Staff / Innovation	Treasury Management Income	280
Partnerships	Joint Working	110
Lobbying / Growth	Homelessness Grant	83
Lobbying / Growth	New Homes Bonus	67
Fees & Charges	Crematorium Income	28
Fees & Charges	Recycling Credits	22
Various	Minor Variations	72
<b>Total</b>		<b>1,562</b>

### 2020/21 Budget (General Fund)

3.15 The period from 2020/21 onwards is much more uncertainty, Members will recall that at the same time as issuing the provisional finance settlement, the Government also issued two major consultation papers that will have significant implications on how local authority funding operates from 2020 onwards.

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3.16 The two main consultation papers are on the following:

- **Fair Funding Review**

This is about how the quantum of local authority funding will be allocated between different tiers of local government. In effect, the review will allocate priority spending (based upon things like population, need etc.) alongside government spending priorities.

It is widely anticipated in local government that this review is likely to allocate more funding towards national priority areas such as adult social care, and children's services rather than be beneficial to the services that borough and district councils provide.

Accordingly, this review poses a major funding risk to local authorities such as Kettering Borough Council in the medium term.

- **Business Rates Retention**

Following on from the above, the way that the business rate retention scheme operates in the future will have major financial implications for the Council.

As a local authority, we have benefitted well under the present system due to the above average increase in our business base in the borough. This has benefitted the Council (and our revenue budget) by £m's over the past few years.

The system will be re-based in 2020 (alongside a number of other reforms). This could run a significant risk for local authorities such as Kettering who have been managing to help facilitate significant business growth over the past few years. It could result in a significant proportion of our increased business rates funding being taken away and effectively re-allocated to other areas as part of this (and the Fair Funding Review). This is a very significant funding risk for the medium term, one that should not be under-estimated.

3.17 The Council responded to these key consultations and further announcements are expected over the coming months.

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### 4 HOUSING REVENUE ACCOUNT

#### 2018/19

- 4.1 A summary of Housing Revenue Account monitoring at the end of February 2019 is shown in Table 6. The HRA is projecting an overspend of £50,000. The main expenditure pressures are a result of increased expenditure on repairs and maintenance owing to an increase in the number of void properties. The void pressures are being managed under the Reinventing Repairs Service Improvement Programme the main objective of which is to reduce both the number of void properties and the turnaround time between lettings. This is an area of work continues to be closely monitored.

<b>Table 6 - HRA</b>	Current Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Gross Expenditure	15,145	15,195	50
Gross Income	(15,145)	(15,145)	0
<b>Net Expenditure</b>	<b>0</b>	<b>50</b>	<b>50</b>

#### 2019/20

- 4.2 A summary of the HRA budget for 2019/20 is detailed in Table 7 any variations to the 2019/20 budget will form part of future durable budget reports.

<b>Table 7 - Housing Revenue Account</b>	<b>Budget 2019/20</b>
	£'000
Gross Expenditure	15,318
Gross Income	(15,318)
<b>Net Expenditure</b>	<b>0</b>

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### 5 CAPITAL PROGRAMME

**2018/19**

5.1 The projected outturn at the end of February for the 2018/19 Capital Programme is shown in Table 8.

<b>Table 8 - Capital Programme</b>	<b>Current Budget 2018/19</b>	<b>Projected Outturn 2018/19</b>	<b>Variance (underspend) / overspend</b>
	£'000	£'000	£'000
<b>Expenditure</b>			
HRA Schemes	7,386	3,827	(3,559)
General Fund Schemes	39,915	18,046	(21,869)
	47,301	21,873	(25,428)
<b>Financing</b>			
Capital Receipts	2,213	1,106	(1,107)
Prudential Borrowing	41,309	17,392	(23,917)
Revenue Contribution	2,589	2,589	0
Grants and Contributions	1,190	786	(404)
	47,301	21,873	(25,428)

5.2 The 2018/19 capital programme is currently projected to show an underspend of around £25.5m. The variance on the General Fund is around £21.9m and the main variance relates to commercial acquisitions which is showing an underspend of £20.9m against a budget of £32.3m.

5.3 The variance on the HRA is around £3.6m and the main variation on the HRA relates to the timing of the delivery of a number of schemes which are all now due to complete in 2019/20, these include two new build schemes at Scott Road and Albert Street.

### 6 CONSULTATION AND CUSTOMER IMPACT

6.1 As outlined in the report.

### 7 POLICY IMPLICATIONS

7.1 As outlined in the report.

### 8 USE OF RESOURCES

8.1 As outlined in the report.

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## 9. RECOMMENDATIONS

9.1 That the Executive;

- a) Approve the budget process for 2020/21 as outlined in Section 2.5;
- b) Notes the Council's Medium Term Financial Strategy and associated guiding principles.

Background Papers:

Contact Officers: M Dickenson

Previous Reports/Minutes:

Monthly Durable Budget Reports